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M. DIANNE DRAINER
Vice Chair

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
<http://www.ecodev.state.mo.us/psc/>

December 8, 1998

GORDON L. PERSINGER
Acting Executive Director
Director, Research and Public Affairs

WESS A. HENDERSON
Director, Utility Operations

ROBERT SCHALLENBERG
Director, Utility Services

DONNA M. KOLILIS
Director, Administration

DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

FILED

DEC 8 1998

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. EO-98-401 - Union Electric Company

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of **SUGGESTIONS IN SUPPORT OF THE STIPULATION AND AGREEMENT.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Carol Keith by SD

Carol Keith
Assistant General Counsel
(314) 230-6453
(573) 751-9285 (Fax)

Enclosure
cc: Counsel of Record

FILED

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DEC 8 1998

Missouri Public
Service Commission

In the Matter of the Application of Union)
Electric Company for Authorization to)
Manage Sulfur Dioxide Emission)
Allowance Inventory.)

Case No. EO-98-401

SUGGESTIONS IN SUPPORT OF THE STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its Suggestions in Support of the Stipulation and Agreement states as follows:

I. Procedural History

On March 23, 1998, Union Electric Company d/b/a AmerenUE (or Company) filed an Application for Authorization to Manage Sulfur Dioxide Emission Allowance Inventory in above-captioned case. In its Application, AmerenUE stated that it forecasts an allowance surplus through at least the year 2007 and requested the ability to utilize various trading techniques to earn a return on this allowance inventory. AmerenUE also stated that it was not requesting any particular ratemaking or accounting treatment for allowance sales but would continue to treat the sale of emission allowances as above-the-line in the return on equity calculation pursuant to the Experimental Alternative Regulation Plans approved in Case Nos. ER-95-411 and EM-96-149. See Application, p. 2.

On April 6, 1998, the Commission issued an Order and Notice in which it gave notice of AmerenUE's application and established an intervention deadline of May 6, 1998. On May 6, 1998, Kansas City Power and Light (KCPL) filed a timely Application to Intervene. The Commission granted KCPL's request on September 6, 1998.

9.

On October 8, 1998, counsel for KCPL filed both a Notice of Withdrawal from the case by Susan B. Cunningham and an Entry of Appearance for Joseph A. Rosa.

After negotiations, the parties submitted a Stipulation and Agreement on November 16, 1998.

II. Staff's Support of the Stipulation and Agreement

Congress created sulfur dioxide emission allowances in the 1990 Amendments to the federal Clean Air Act. An allowance is the authority to emit one ton of SO₂. 42 U.S.C. 7651(a)(3)(Supp.1998).

A. General Authority to Manage Sulfur Dioxide Allowance Inventory

The first provision of the Stipulation and Agreement allows AmerenUE general authority to manage its allowance inventory. If AmerenUE is permitted to manage its allowance inventory, it can better respond to market conditions and will relieve the Company of the necessity to request Commission approval for each allowance transaction. The allowance market is subject to rapid changes and AmerenUE should be permitted to respond quickly to this market with the ability to manage its own allowances, subject to appropriate review as set forth in the Stipulation and Agreement.

B. Accounting and Regulatory Treatment

The first provision of the Stipulation and Agreement also requires AmerenUE to book any profits or losses realized from the allowance sales or any other transactions associated with the allowances to utility operating income according to generally accepted accounting principles. Since the allowances are the result of costs included in rates (fuel and plant), any associated profits should flow to utility operating income.

The Stipulation provides that the regulatory treatment of these profits and losses, as well as the prudence of any allowance transaction, is subject to review and adjustment as part of any audit and/or examination in a future sharing credit calculation or future rate case. Through this provision of the Stipulation, the right to determine the ratemaking treatment of the allowance has been preserved for consideration in the appropriate future regulatory proceeding.

The Company is currently operating according to the Experimental Alternative Regulatory Plans, adopted by the Commission in Case Nos. ER-95-411 and EM-96-149. Pursuant these plans the Company shares profits, in excess of specified return on equity thresholds, with ratepayers. The Staff does not foresee that allowing AmerenUE the authority to manage its sulfur dioxide emissions will reduce sharing since the allowances have no cost basis and any funds from sales or other transactions are likely to increase profit.

C. Allowance Sales Limits

The second provision of the Stipulation and Agreement permits the Company to sell up to half of all current and future allowances without seeking specific Commission approval. This permission includes sales to CIPS and other utilities.

Allowing the Company to sell up to half of all current and future allowances without Commission approval allows AmerenUE considerable flexibility without threatening the allowance inventory. This provision is similar to the authority given previously to KCPL, in terms of the ratio to the total allowances received. According to its budgets, AmerenUE's balance of allowances will continue to grow at least through 2008 so the Company appears to have sufficient allowances to offset emissions. Additionally, industry literature and discussions with the Company indicated to the Staff that the value of allowances may greatly diminish in the future if stricter clean air laws, currently being considered in Congress, are passed.

D. Sales of Allowances in Combination with Other Transactions

The third provision of the Stipulation and Agreement permits AmerenUE to sell allowances in combination with other transactions, such as power contracts. However, the Company must book a profit from the sale of the allowances at least equal to the current market value as established by the monthly price index published by Cantor Fitzgerald Environmental Brokerage Service. Should the Staff, OPC or the Company wish to use a different index for this purpose in the future, notice will be given to the other parties and all parties will negotiate in good faith to agree on a substitute. The Commission will be asked to resolve the matter if no agreement is reached in a reasonable time period.

This provision assures that the profit from the sale of an allowance is readily determinable and must be at least equal to the current market value of the allowance, as established by the industry index. While AmerenUE will be allowed to have the flexibility to effectively market allowances, the allowance value will be protected.

E. Reporting and Database

The final provision of the Stipulation and Agreement requires the Company to provide detailed reporting once each year for all transactions involving allowances. The reporting date will be August 31 for the previous twelve months ending on June 30. The database to support allowance transactions and inventory balances will be maintained and available to the Staff upon request during the year.

The timing of the annual reporting for allowance transactions will be synchronized with the review for the credit calculation, which is based on an annual period ending June 30. Additionally, requiring the Company to report all allowance transactions once each year and

giving the Staff the ability to obtain the data at any time upon request, provides sufficient opportunity for Staff review.

WHEREFORE, the Staff supports the Stipulation and Agreement between the parties and requests Commission approval.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Carol Keith By SD
Carol Keith
Assistant General Counsel
Missouri Bar No. 45065

Attorneys for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(314) 230-6453
cmkeith@earthlink.net

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 8th day of December, 1998.

Carol Keith By SD

Service List for Case No. EO-98-401
Revised: December 8, 1998

James J. Cook
Associate General Counsel
Ameren Services Company
P.O. Box 66149
St. Louis, MO 63166

Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Joseph A. Rosa
Kansas City Power & Light Company
1201 Walnut, 20th Floor
Kansas City, MO 64106